

Message Text

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ACTION EUR-12

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BRUSSELS FOR EEC

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SUBJECT: ECONOMIC DEVELOPMENTS

SUMMARY: PORTUGAL'S BALANCE OF PAYMENTS DURING FIRST QUARTER
OF 1978 SHOWED SOME IMPROVEMENT OVER EARLY 1977, DESPITE A
LARGER TRADE DEFICIT. GOP CONCLUDED AGREEMENT ON GERMAN
PARTICIPATION IN \$750 MILLION COORDINATED LOAN PROGRAM. COST
OF LIVING IN THE FIRST FIVE MONTHS OF 1978 HAS RISEN AN AVERAGE
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20.8 PERCENT OVER THE SAME PERIOD OF 1977, AND GOP HAS ANNOUNCED
NEW PRICE INCREASES. COUNCIL OF MINISTERS APPROVED TERMS FOR
NEGOTIATING WORLD BANK AGRICULTURAL SECTOR LOAN. ESCUDO
APPRECIATED VIS-A-VIS U.S. DOLLAR, BUT DEPRECIATED RELATIVE
TO OTHER MAJOR CURRENCIES. END SUMMARY.

1. BALANCE OF PAYMENTS: ESTIMATED 1978 FIRST QUARTER BALANCE

OF PAYMENTS DEFICIT WAS \$360 MILLION, COMPARED TO \$450 MILLION FOR SAME PERIOD OF 1977. FIRST QUARTER BALANCE INDICATES PROJECTED CY 78 DEFICIT OF \$1.1 BILLION APPEARS ON TARGET, IN PART BECAUSE FIRST QUARTER RESULTS INCLUDE HIGHER THAN NORMAL LEVEL OF AGRICULTURAL IMPORTS (FOR REBUILDING STOCKS) AND BECAUSE IMF AGREEMENT WAS NOT YET OPERATIVE. TRADE DEFICIT FOR FIRST FIVE MONTHS, HOWEVER, INCREASED FROM \$908 MILLION IN 1977 TO \$990 MILLION IN 1978 (\$870 MILLION IN EXPORTS AND \$1.85 BILLION IN IMPORTS). DURING THE FIRST QUARTER, THE U.S. REPLACED THE FRG AS THE PRINCIPAL SOURCE OF PORTUGAL'S IMPORTS (\$238 MILLION); IT ALSO PRESENTED PORTUGAL WITH ITS LARGEST BILATERAL TRADE DEFICIT (\$174 MILLION.)

2. PROGRESS ON COORDINATED LOAN: GOP AND FRG HAVE REACHED AGREEMENT ON \$200 MILLION PARTICIPATION IN THE COORDINATED MULTILATERAL LOAN PROGRAM. NEGOTIATIONS ON BELGIUM'S \$10 MILLION SHARE WILL BEGIN SOON. GOP HAS NOT INITIATED NEGOTIATIONS WITH FRANCE AND ITALY. GOP NEGOTIATIONS WITH PRIVATE GERMAN BANKS FOR \$150 MILLION LOAN REPORTEDLY HAVE BEEN COMPLETED. DISCUSSIONS WITH U.S. BANKS FOR A LOAN OF \$250 TO \$300 MILLION ARE CONTINUING.

3. COST OF LIVING CONTINUES TO RISE: PORTUGAL'S CONSUMER PRICE INDEX IN THE FIRST FIVE MONTHS OF 1978 ROSE AN AVERAGE 20.8 PERCENT OVER SAME PERIOD OF 1977. ON POINT LIMITED OFFICIAL USE

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TO POINT BASIS, PRICES IN MAY WERE UP 18.5 PERCENT OVER MAY 1977, WITH FOOD AND BEVERAGES INCREASING 18.2 PERCENT; GARMENTS AND FOOTWEAR, 14 PERCENT; HOUSEHOLD EXPENDITURES, 24.2 PERCENT; AND MISCELLANEOUS, 17.8 PERCENT. SUMMARY OF INDEX FOLLOWS:

MCPI - PORTUGAL (AVERAGE 1976 PRICES EQUAL 100)							
JAN-MAY AVERAGE				MAY			
COMPONENTS		PERCENT		PERCENT			
1977	1978	CHANGE	1977	1978	CHANGE		
FOOD & BEV-							
ERAGES	125.1	152.4	21.8	136.1	160.9	18.2	
GARMENTS &							
FOOTWEAR	113.4	131.8	16.2	115.6	131.8	14.0	
HOUSEHOLD							
EXPENDITURES	116.9	143.7	22.9	124.4	154T	24.2	
MISC	113.6	134.8	18.7	117.9	138.9	17.8	
TOTAL	120.4	145.5	20.8	128U	152.5	18.5	

4. TALKING, RIDING, DRINKING AND SMOKING MORE EXPENSIVE: COUNCIL OF MINISTERS HAS RAISED, EFFECTIVE JULY 1, TELEPHONE, TAXI AND BEER PRICES. COAT OF LOCAL CALLS JUMPED 67 PERCENT FROM 1.5 TO 2.5 ESCUDOS; MONTHLY RECEIVER

RENTAL ROSE 100 PERCENT FROM 200 TO 300 ESCUDOS. TAXI
FARES ROSE AVERAGE OF 30 PERCENT. A LITER BOTTLE OF NATIONAL
BEER NOW COSTS 22 ESCUDOS, UP 16.5 PERCENT. EARLIER,
GOVERNMENT RAISED PRICES ON CIGARETTES AND OTHER TOBACCO
PRODUCTS. PERCENTAGE INCREASES RANGE WIDELY; ONE POPULAR
BRAND OF FILTER CIGARETTES INCREASED 36 PERCENT IN PRICE.

5. WORLD BANK LOAN TO AGRICULTURE AND FISHING SECTORS:
THE GOP ANNOUNCED JUNE 29 ITS DECISION TO PROCEED WITH THE
WORLD BANK AGRICULTURAL SECTOR LOAN. THE SEVENTY MILLION
DOLLAR CREDIT IS FOR 15 YEARS, WITH THREE-YEAR GRACE PERIOD,
AT 7.5 PERCENT INTEREST RATE. PROJECT IS DESIGNED TO SAVE
PORTUGAL \$51 MILLION PER YEAR IN AGRICULTURAL AND FISH
PURCHASES ABROAD. MEANWHILE, AGRICULTURAL OUTLOOK REMAINS
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BLEAK. FIELD REPORTS INDICATE THAT THIS YEAR'S CEREAL
CROP WILL BE HIGHLY DISAPPOINTING DUE TO USE OF IMPROPER
SEEDS AND TO POOR WEATHER.

6. MAJOR UPJOHN INVESTMENT: UPJOHN RECENTLY RECEIVED
GOP APPROVAL FOR \$50 MILLION JOINT VENTURE PETROCHEMICAL
PROJECT WITH PORTUGUESE PUBLIC SECTOR COMPANY, QUIMIGAL.
PLANT WILL PRODUCE 50,000 TONS/YEAR OF POLYMERS FOR EXPORT
TO UPJOHN SUBSIDIARY IN THE NETHERLANDS. THIS PROJECT IS
THE FIRST MAJOR U.S. INVESTMENT UNDER PORTUGAL'S
AUGUST 1977 FOREIGN INVESTMENT CODE (77 LISBON 8022).

7. ESCUDO RATE: ESCUDO/DOLLAR BUY RATE, WHICH CLOSED AT
45.716 ON JUNE 15, CLOSED AT 45.250 ON TUESDAY, JULY 4,
THE LOWEST RATE SINCE MAY 11. WHILE APPRECIATING VIS-A-VIS
THE DOLLAR, THE ESCUDO HAS DEPRECIATED SIGNIFICANTLY RELATIVE TO
OTHER MAJOR CURRENCIES.
BLOOMFIELD

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